The harmonisation of criminal sanctions in the field of intellectual property

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Ladies and Gentlemen,

I. Introduction

Today I would like to address the subject of criminal enforcement of intellectual property. I understand that soon the Commission will propose a harmonisation Directive on this topic, to replace the proposed Directive and Framework Decision that it proposed and then withdrew last year. I understand that the new proposal is likely to contain all the contents of last year's proposal, without any significant change in substance. The contents of the withdrawn proposal for a Directive and a Framework Decision will just be repackaged into a single legislative instrument.

2. *The basic issues*

I would like to begin with what I suggest is an undeniable proposition: namely that counterfeiting and piracy are very serious problems and that the imposition of criminal sanctions for counterfeiting and piracy is necessary and appropriate. However, I would like to ask two main questions: first, has the Commission properly justified the need for a Community legislative instrument along the substantive lines of its withdrawn proposal, and second, would an instrument along the substantive lines of the Commission's recently withdrawn proposal lines strike the right balance?

3. *Is a Directive needed?*

The Explanatory Memorandum for the Commission's withdrawn proposal explains the justification for the proposal in less than one page. Really all the Explanatory Memorandum does is to say that counterfeiting and piracy are a big problem, which is indeed true. But this does not justify the adoption of a directive along the lines apparently envisioned by the Commission. In particular, the Commission has not said a word about how national systems of criminal penalties differ. Nor does it say anything at all about how any (undescribed) differences between Member State systems distort the functioning of the internal market. Not a single piece of evidence is provided to support the proposition that the internal market's functioning is hampered by the lack of harmony regarding criminal penalties for intellectual property infringement. One would expect to find more in the way of an explanation, and indeed one would expect the Commission to provide some substantial body of evidence to demonstrate that an internal market problem actually exists.

The Commission also failed to provide any explanation, much less provide any evidence, to support the proposition that disparities among the Member States in this field actually make it

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difficult to fight counterfeiting and piracy, or that existing criminal legislation is inadequate in the sense that it does not provide strong enough tools to fight the scourge of counterfeiting and piracy.

I had understood that these days the Commission had committed itself to providing clear and solid justifications for new legislative proposals. I would suggest that it is incumbent upon the Commission to provide a far more serious justification for any new proposal.

So leaving aside the question whether the Commission has provided an adequate justification for a proposal, is new legislation in reality needed in this area? I must say that as a lawyer who in IP disputes represents mainly plaintiff intellectual property holders, I have my doubts. I do not find the existing Member State legislation on criminal penalties to be lacking, nor do I find disparities in Member State legislation in this area at all to distort the functioning of the internal market.

But for purposes of today's discussion, let us give the Commission the benefit of the doubt on this point and assume that some sort of legislation is needed in this area. Let me then turn to the main question I would like to address, namely the appropriate scope of any such legislation. It is of course vital to provide adequate IP rights to encourage innovation, creativity and investment, and it is also crucial to provide the tools necessary vigorously to enforce those rights. But it is also essential not to go too far. In my view, the Commission's approach actually threatens the innovation, creativity and investment it purports to protect.

So what are the specific problems with the Commission's approach? In what ways is it too broad and why?

4. Why is the Commission's approach unbalanced and why does it actually threaten innovation?

The purported target of the Commission's approach is counterfeiting and piracy, and if indeed there is any need for new legislation, it is with respect to counterfeiting and piracy. However, the language of the Commission's withdrawn proposal, which I understand is likely to re-appear in a new proposal, is not limited to counterfeiting and piracy. Instead, it would extend criminal penalties to a considerable amount of conduct commonly undertaken by entirely legitimate actors, including both large and small companies and individual citizens.

The Commission's text seeks to criminalise *all* "intentional infringements" of *all* IP rights, including patents, on a "commercial scale." Now that might sound nice and appropriate to the lay observer, but let me try to explain to you why it threatens entirely legitimate behaviour.

First let's take the question of patents.

a. *The problem of patents*

In many industrial sectors, including for example the semiconductor, telecommunications equipment and software sectors, it is often necessary to use technology covered by tens of even hundreds of patents to produce a single state-of-the-art product. When a company is deciding whether to launch an innovative product on the market, it needs to decide for which

patents it will take a license. While the majority of patents are valid, and the European and national patent offices do their level best, the fact is that *many* patents granted by the patent offices are in fact not valid. So when a company reviews the patent landscape, it will often conclude that certain patents that it would infringe were it to launch a new product are not in fact valid, often because the technology the patents cover was not in fact novel or because it was actually obvious to one skilled in the art. If a company concludes for example that the chances of a patent ultimately being held valid are on the order of only 20-25%, the company might well decide to take the risk and to launch the product without taking a license to the product. In other words, to use the Commission's language, the company would "intentionally infringe" the patent, and it would do so on a commercial scale.

This sort of risk-taking is socially valuable behaviour that should be encouraged. Why is that so? Because society has a strong interest in maintaining a robust public domain. To quote Justice Hugh Laddie, a prominent English intellectual property judge:

"The whole of human development is derivative. We stand on the shoulders of the scientists, artists and craftsmen who preceded us. We borrow and develop what they have done; not necessarily as parasites, but simply as the next generation. It is at the heart of what we know as progress."[2]

Patents establish monopolies, and such monopolies should be allowed only when the *quid pro quo* of innovation is provided to society. Therefore it is in the vital interest of society that the validity of patents be challenged when doubts exist about their validity. And it is important to consumers that they have the benefit of innovative products that would not be available to them if their producers were overly fearful of taking the patent infringement risks of launching them.

Now injunctions and civil damages awards can be very threatening, but if these are the "only" cost of taking risks by launching new products, a company will often decide to take the risk if it genuinely believes the patent is likely to be held invalid. I know personally of *many* such cases. But if the penalty for taking the risk of infringement is that a company's managers go to jail, I think you can readily see that the entire equation changes substantially. If the penalty is prison, a manager might well choose to let the invalid patent go unchallenged, and he or she might decide not to bring an innovative new product to market. To quote Justice Laddie again:

"The threat of a criminal conviction hanging over an alleged infringer's head and the heads of its directors is much more likely to make them sue for peace than the mere risk of losing in civil proceedings. Like the prospect of being hanged, it does concentrate the mind."[3]

Let me take another example, that of open source. Despite the rejection by the Parliament of the CII Directive last summer, the fact is that many patents exist on software technologies.

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[2] J. Hugh Laddie, "Copyright: Over-strength, Over-regulated, Over-rated", European Intellectual Property Law, 1996.

[3] *Ibid.*

Indeed software products are often covered by a complex web of patents. For example, Microsoft claims to hold 14 patents on the positioning and movement of a cursor.

All those thousands of modern-day artisans, the European open source programmers, may know about certain patents and infringe them in good faith believing that they are invalid, but they cannot be certain that this is so. Again, if the penalty is prison, those individuals will be dissuaded from making valuable contributions to society and the European economy by writing and contributing open source software.

So, criminalizing such good faith -- but intentional -- patent infringements will threaten the balance in the patent system by encouraging the pursuit and enforcement of weak patent claims. And if the risk of infringing a patent with the ultimate aim of challenging the validity of a patent is so high, innovation will actually suffer. This would be a bitterly ironic result for a directive intended to foster innovation.

Now let's turn to the question of copyright.

b. *The problem of copyright*

At one end of the spectrum, there is obvious piracy. For example, the operation of a factory producing illicit CDs is a copyright infringement that clearly constitutes an act of piracy, and it most certainly should be subject to severe criminal penalties.

At the other end of the spectrum is for example the production of software. While blatant piracy of software most certainly exists, and should be severely punished, the production of software can raise complex copyright issues akin to those I just discussed regarding patents. Europe's software developers should not be faced with the prospect of prison except in cases of true piracy. Again this has serious implications for Europe's open source community.

c. *The problem of design rights*

Similar problems also exist in the context of design rights, especially for registered design rights that have not even been examined and found to warrant protection by a relevant authority.[4] Many such rights are of very dubious validity, and a company might very legitimately decide intentionally to infringe them on the basis that they are unlikely to be held valid. But sometimes this might prove wrong, and again if criminal penalties are the consequence, the actor might well choose not to engage in the socially valuable act of marketing its product even in that majority of cases where the right will in fact be found invalid.

5. *The international environment*

Let me make one final point: In setting European policy on this front, it is important to consider the international environment. In particular, we should consider the situation in the United States. There, criminal penalties along the lines of those contemplated by the Commission do not exist, and whatever else one might think about U.S. policy choices on

[4] Note that unexamined patents are also granted in some countries, including France, Belgium and the Netherlands.

certain fronts, it would be difficult to allege that the U.S. has does not have an intellectual property regime that fosters innovation.

6. *Conclusion*

It is incumbent upon the Commission properly to demonstrate the need for any criminal enforcement directive and that the Commission has the competence to act. So far, it has not even come close to doing so. If such a need is demonstrated, any Commission proposal should, within the limits of the Commission's competence, provide only for means that really are demonstrably necessary to fight counterfeiting and piracy. It should not threaten the public domain and innovation by discouraging competitors from launching products in cases where the scope or validity of intellectual property rights is doubtful.

So what does this mean? It means, first of all, that patent infringement should be excluded from the scope of any criminal enforcement directive. Second, it means that the scope of the Directive should be limited to counterfeiting and piracy. Third, it means that counterfeiting and piracy should be very carefully defined, leaving no room for uncertainty regarding what falls within their ambit. Counterfeiting and piracy should be defined to exclude cases where legitimate doubt exists about the scope or validity of an intellectual property right.

Thank you.